Chapter 2 Understanding the Issues

OVERVIEW

The purpose of this study is to describe the facts about the provision of urban services in the River Road and Santa Clara area. It attempts to provide information to answer these questions:

- What level of service (amount, reliability, quality) do different agencies provide?
- What does it cost to provide those services?
- What do people pay for those services?
- How might the quality and cost of service change in the short run if a single property were annexed into the City? In the long run if many properties are annexed?

Stated that way, the task sounds simple. But everyone who has been involved with the River Road/Santa Clara urbanization process—staff of the City and various service providers, elected representatives, members of citizen advisory groups, and residents—knows the issues are far from simple.

Consider some of the questions embedded in a request to describe urban services:

- How do services—their amount, quality, and price—vary from River Road to Santa Clara?
- How do services vary from properties inside the City to those outside the City?

The purpose of this chapter is to describe in more detail what these issues are, why they are important to any attempt to evaluate and draw conclusions about costs of providing services, and how they might be addressed in this evaluation.

ISSUES COMPLICATING AN EVALUATION

PERSPECTIVE: FROM WHOSE POINT OF VIEW?

This point is obvious to those who have been involved in the debates about urban services and annexation in the River Road and Santa Clara area. Residents of Eugene will tend to see the urban area at the edge of their boundary as one that enjoys many advantages of an urban area without paying urban taxes. Some residents in the River Road and Santa Clara area will tend to see themselves as second-class citizens of Eugene getting second-class services (if they have already been annexed), or victims of Eugene's urbanization, which is eventually going to force them to give up a lifestyle and environment that is dear to them.

The City, its service departments, and special districts will take an institutional point of view. In theory that view should align with the views of the people they serve; in practice, some of the variables the institutions care about will not be of immediate interest to their constituents.

Our solution to this issue is to try, within the limits of the scope of this report, to describe results from these different points of view.

PERSPECTIVE: AVERAGE OR INCREMENTAL?

For a large service district (e.g., the City of Eugene when it provides wastewater collection and treatment, or parks and recreation programs), the cost of adding one new household to the district may be too small to measure. For a general service like parks and recreation, districts do not track their new users, new households may not contain any new users or may contain users whose use is very different from the average.

For wastewater, even though common sense and analysis allows the reasonable approximation that wastewater generation (and, thus, the cost of wastewater treatment) is highly correlated with water use, which is metered, it is still the case that a new household may cost the district less than it pays. Why? Because there are many costs (of capital and administration) that are fixed within a broad range: they do not change much as new users are added (up to a point). So a new household or business may cost the district much less than the average cost to provide service to a household.[1] Where excess capacity exists, it can be the case that existing users are better off (have lower costs) when service is extended to new users: ones who can be served for less than average cost. Existing users may benefit from lower charges because costs are spread over the existing users and new users.

In the longer run, however, the benefits of excess capacity get dissipated. Facilities get old, and growth uses up their capacity: eventually a new major facility (sewer line or treatment plant) must be built. In such cases, existing users may point to expected growth as the culprit: but for that growth, they argue, they would not need the new facilities, and new growth should pay for the full cost.

Our solution for this report is to focus on average cost. The analysis here is primarily long run, and every household and business contributes to the need for facilities. It can distort the analysis when a service provider has a lot of excess capacity, or is just at the point of needing to add new capacity.

TIMING ISSUES: SHORT RUN AND LONG RUN

This issue is related to the one above about average versus incremental cost analysis. Short-run costs may not correspond well to long-run average costs. That means that the cost for an individual household may change, perhaps substantially over time. It

[1] Average annual cost per equivalent dwelling unit (EDU, a standard term in calculating sewer costs and rates) would be total annual cost divided by the number of EDUs.

also means that the structure of service provision—its cost and its institutional structure—can change over time. For example, the River Road Parks District or the Santa Clara Rural Fire Protection District could find their ability to provide service at a reasonable price eroded over time as properties within their boundaries annex to the City of Eugene and substitute Eugene services for those of the special districts.

Our solution for this report is to look, to the extent the budget has allowed us, at both short-run and long-run issues. For each service we focus on the effects on one house (short run) as it changes from one service provider to another, but also describe briefly how the cumulative effects (of annexing one property at a time until many properties have been annexed) will affect service providers.

BOUNDARIES: WHO'S IN AND WHO'S OUT?

River Road is not Santa Clara: the analysis must address that. Moreover, households and businesses in each area have different service providers. Most fundamentally, some properties in both areas are in the city of Eugene, while most properties in both areas are outside the City.

Our solution to that problem is to work at the level of the service providers. We begin each description of a specific service with a matrix that shows who is providing the service, and roughly at what level, in Santa Clara (in the City and outside the City) and River Road (in the City and outside the City). The only way to answer some general question about River Road or Santa Clara is to add up the answers to the question for each service.

EXTERNAL IMPACTS: WHAT COSTS AND BENEFITS COUNT?

Conflicting views of the efficiency and fairness of service provision arise not only because people have different perspectives, but also because those perspectives lead them to count or ignore different costs and benefits.

A critical issue is what economists refer to as *externalities*. Stormwater illustrates the concept. Many of the problems associated with the poor management of storm water occur downstream in the form of flooding and decreased water quality. As long as people in the Eugene area do the minimum ditching to prevent localized flooding, the amount and quality of stormwater runoff is not a problem for them. It does, contribute, however, to problems downstream as far as Portland.

The science and engineering seems to agree that it makes more sense to manage stormwater at the point of origin then to try to mitigate its impacts farther downstream. But for property owners and developers in Eugene, those downstream costs are *external* to their cost calculations and concerns. Why should they pay to reduce costs in Portland?

The answer gets into moral and legal issues beyond the scope of this study. The point here is that those costs matter, and that there are examples that matter even closer to home. For example, it is clearly the case that expenditures on and the amount of police protection is greater in the City of Eugene than it is in Lane

County. One theoretical outcome of that is that some criminal activities (e.g., the operation of a meth lab) will be less risky in the County. And a further potential effect is that the City of Eugene's police department will be the one to deal with those kinds of activities in the County, especially when they are close to Eugene's borders.

That point relates to a subset of the externality problem: what the literature of public finance refers to as the "free-rider" problem. Fire protection and library services provide an example. The City of Eugene just built a state-of-the-art library from funds primarily collected from properties in Eugene. Non-residents can buy check-out privileges for a fee, but that fee is below average cost. Going the other direction, there can be cases where certain subareas in a larger service district pay for services that might be of lesser quality than those in other parts of district, or they may be at the fringe paying for larger central facilities (e.g., a community park) that are used much more by people who live closer to them.

There is no simple and standard analytical solution to these types of evaluation problems. Our tack in this study is to try to identify where external costs and benefits are likely to be significant, and explain why. Estimating the magnitude of those costs or otherwise incorporating them into our analysis is beyond our scope of work.

DIFFERENCES IN SERVICE LEVELS AND SERVICE DEMAND

A point related to the previous one is that people in different areas of a city can make a case that they need different levels of service and should pay different costs. This is an old and technically unresolvable problem of public finance: it gets resolved politically. Every property class can make an argument about why some other property class should pay more.

Consider some examples of the arguments as they relate to fire protection:

- The downtown should pay more because it has dense and expensive buildings, and requires special equipment for firefighting. Or, it should pay less because inspections of commercial buildings make fires less likely and response times can be quick because of the central fire station.
- Industrial properties should pay more because they have special and often hazardous materials. Or, they should pay less because they are relatively spread out and the chances of extensive fires are reduced.
- Residential properties should pay more because they make the bulk of the service calls (mainly for EMS). Or, they should not pay more because part of the costs of those calls is charged back to them (and often paid for by insurance).
- Low-density residential areas should pay more because they require more fire stations to be built to keep a minimum response time. Or, they should pay less because the fires are easier to fight and less likely to jump to other properties.

In short, it is common for everyone to believe they are subsidizing someone else.

Not only do households and businesses get different levels of services—they may want different levels of services. In most cases that desire comes from a desire to reduce costs: people elect a lower level of service because it is cheaper. But in some cases, it may be an actual preference: for example, even if it were offered for free, some people would reject curbs and sidewalks because they prefer the feel of a rural street.

The analysis necessary to try to resolve this issue would focus on the implied relationship between cost of service and assessed property value (because the bulk of a property's payments are a direct function of its assessed value). The best way to allocate the costs would be to use and almost certainly go beyond the kind of actuarial analysis that insurance companies do: who really uses the service, and can those users be grouped for purpose of charges. Beyond the technical difficulties of such an analysis are the political and moral ones. For example, older homes (with lower assessed values) may be more likely to have fires than newer ones; rental units may be more likely to have fires than owner-occupied units (or vice versa). Should fire departments and districts, like insurance companies, charge all these households a different rate?

For these issues, as with many others, there is no standard and clear technical procedure to address them. In this study, we address them descriptively, not quantitatively: that is, we try to describe how service levels and costs differ for each service, for each subarea.

CENTRAL SERVICES

Multiple service providers can add to the overall expense of providing those services. The cost of delivering a service includes direct and indirect costs. For example, delivering police services includes direct costs, such as police officers and a crime lab. Delivering police services also includes indirect costs, such as the cost of running payroll and managing health insurance premiums. If multiple services are consolidated into one system, there are significant economies of scale to be gained. Thus, a City can economize on these indirect costs, and each service district must provide for their own indirect costs.

There is also a saving that comes from one command and governing structure, which allows for a more efficient allocation of resources and response patterns. A single governing structure can eliminate multiple station locations and redundant equipment. Equipment and supplies can be purchased in bulk, allowing savings and inventory control.

RISK REDUCTION: WHY PAY FOR WHAT IS NOT USED?

Some services are used directly and daily by everyone: water, electricity, and transportation are examples. Of these, water and electricity are different because they can be metered: people know (or can know) what they use, and when they choose to use it, they know that they are agreeing to pay the going rate. Other services have a component of payment for services used: e.g., paying for recreation programs, or for a library card.

But life-safety services (fire, EMS, police) are very different. They are not used every day. Paying for these services is like paying for house or life insurance: you hope you never use it. And most people in a city never use it, at least not directly. Thus, it is understandable that people would say that they do not use fire and EMS services or, more likely, that they do not need a full and expensive level of service. But to have it available the one time it is needed means that it has to be provided all the other times as well.

Consider fire protection and EMS. The service is available to everyone all the time. People who live in an area with less fire protection may work at businesses in areas with more fire protection. Since many emergency response calls are for car fires or accidents, people are often being protected by another jurisdiction's emergency response system and budget.

In a metropolitan area with a mix of emergency response capabilities, *not responding* is not an option. If one area has a major fire and a lesser capability to fight it because of voter decisions to fund less staff and equipment, other jurisdictions will provide back-up.

For this report, we treat this issue the way we do most others: we note it when we see it, but do not otherwise try to quantify the magnitude of cost impacts on different agencies or subareas of service users.

COMMINGLED REVENUE

Most (though not all) of the *costs* of a particular type of service in the City of Eugene can be directly accounted for. Some exceptions are the fleet (e.g., police, fire, and parks vehicles are mostly bought and serviced through the City Public Works department) and general administration (e.g., City manager, City Council, Finance). But even these costs are allocated back to the departments, so one can feel relatively confident about sources of cost.

For revenue, however, the connection is less direct, especially for a multi-purpose government like the City of Eugene. The City collects General Fund revenue, and non-General Fund revenue. Non-General Fund revenues account for monies specifically allocated to particular services. General Fund revenue is not dedicated to specific purposes and is used for basic City services. The City collects General Fund revenue from property taxes, franchise fees, EWEB's contribution in lieu of taxes, renting out facilities, providing police services for University of Oregon events, and a host of others. The majority of the revenue is generated by property taxes.

In our report, we discuss these revenues in Chapter 3, Overview of the City's Budget. For each individual service, we calculate the portion of a resident's property tax that supports that service. This is only an estimate. A resident's property tax payment is not explicitly divided up by the City's service providers. We describe it in that way to estimate how individual property owners contribute to City services.

ANALYSIS ISSUES: ARE THE DATA AND EVALUATION TECHNIQUES UP TO THE TASK?

Our analysis relied on the City's budget for Fiscal Year 2003-2004. The current level of service, staffing, and expenditures in Eugene is the benchmark for forecasting comparable levels of service, staffing, and costs in River Road and Santa Clara. We assume that costs and revenues will continue to resemble current costs and revenues.

The City's budget is a forecast of expected costs and revenues. Actual numbers will vary from budgeted numbers, for many reasons. For example, a higher (or lower) number of property owners will default on their property tax bill than was expected, or the cost of commodities such as gasoline may rise (or fall) unexpectedly.

Our analysis provides a thorough estimate of the costs to residents and the costs and revenues to the City associated with annexation. In some areas, we were unable to calculate precise figures. For example, the City receives some revenues from the State that are based on the City's population. Because the amount of money the State distributes every year varies for many reasons, using data for Fiscal Year 2003-2004 provides only an estimate of annual revenues.

These issues indicate that our analysis will not provide a perfectly precise accounting of the annexation. Given the nature of the technical problems and the limitations of our budget, in some areas we provide a descriptive analysis, instead of a quantitative analysis. Our analysis is only an estimate of the costs and revenues associated with providing urban services, allowing the City and residents to fully understand the issues and costs of providing those services.